4. 019

U.S. Small Business Administration
Management Assistance
Support Services Section

Management Aids
Number 4.019

SBA

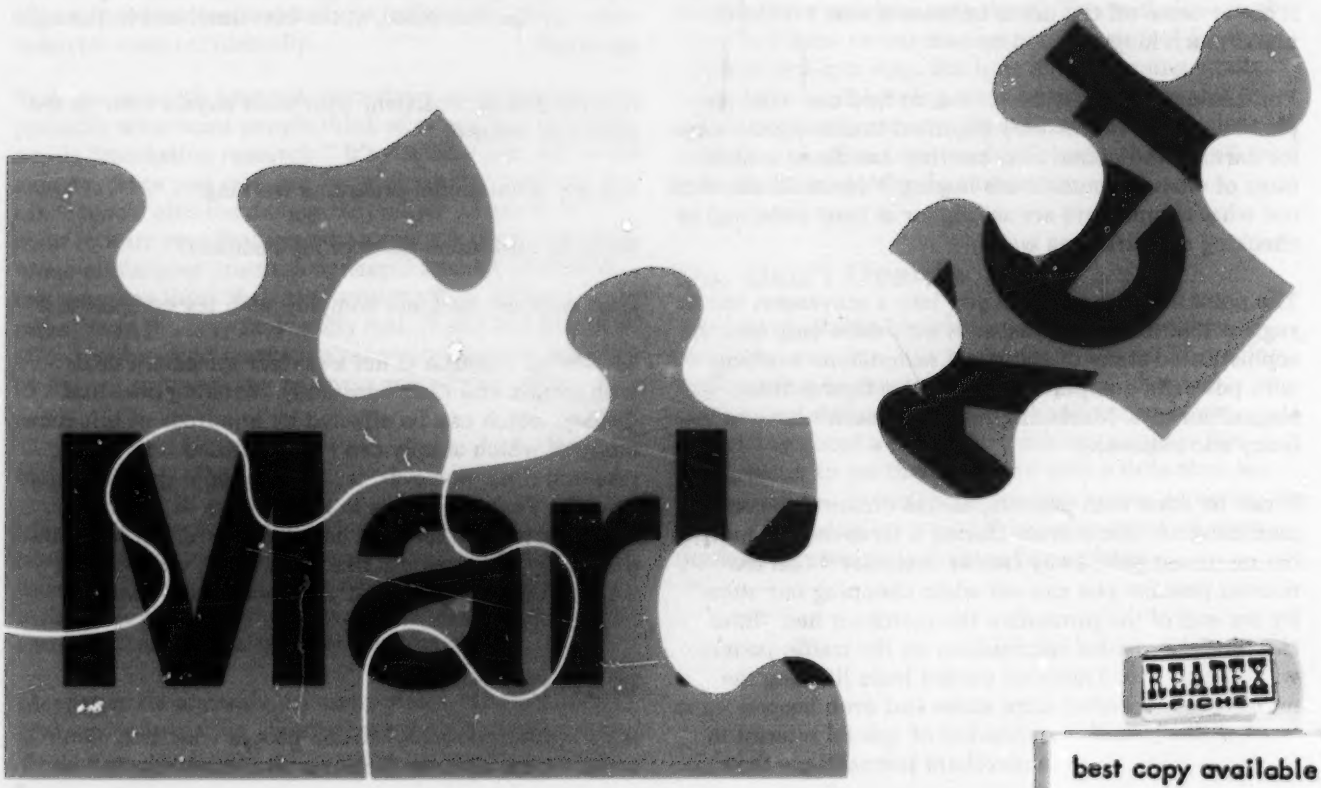
Learning About Your Market

NEWARK PUBLIC LIBRARY

JUN 23 1982

U. S. GOVT. PUBS.
DEPOSITORY 376

By J. Ford Laumer, Jr.
James R. Harris
Hugh J. Guffey, Jr.
Assistant Professors of Marketing
Auburn University
Auburn, Alabama



READEX FICHE

best copy available

SBA 1.32:

Summary

To be successful a small business must know its market. Marketing research is simply an orderly, objective way of learning about people — the people who buy from you or might buy from you.

This *Aid* provides an overview of what market research is and how it's done. It introduces inexpensive techniques that small business owner-managers can apply to gather facts about their customers and the people they'd like to have for customers.

Trash and Peanuts

Some marketing research material is nothing but garbage. Marketing research can be done for peanuts—even with peanuts. Shocking statements? Perhaps, but both of them are literally true.

Take garbage, for instance. Inspection of outgoing waste has long been a practice of many small restaurants. Initially, many people may order the flounder a la marzipan because of the novelty of the dish; but if a restauranteur finds most of it leaving the tables uneaten, it better come off the menu because it won't be in demand much longer.

You can use trash positively, too, to find out what people like. It may not be very dignified to check trash cans for cartons and containers, but they are direct indications of what consumers are buying. You could also find out what competitors are selling (or at least ordering) by checking their trash as well.

The point here isn't to turn you into a scavenger, but to suggest that marketing research isn't done only be sophisticated staffs of statistical technicians working with powerful computers grinding up figures from elegant surveys. Marketing research doesn't have to be fancy and expensive.

It can be done with peanuts, as one creative discount merchandiser discovered. During a three-day promotion the merchant gave away free to customer "...all the roasted peanuts you can eat while shopping our store." By the end of the promotion the merchant had "litter trails" that provided information on the traffic pattern within the store. Trampled peanut hulls littering the most heavily traveled store aisles and even heaped up in front of displays of merchandise of special interest to customers. In short, the merchant learned how they acted in the store and what they wanted and observed their behavior.

What Is Marketing Research?

Basically, marketing research is just what the merchant did with the peanuts. Find out what catches customers' attention by observing their actions and drawing conclusions from what you see. To put it more formally, in the words of the American Marketing Association, marketing research is "the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services."

Marketing research is an organized way of finding objective answers to questions every business must answer to succeed. Every small business owner-manager must ask:

Who are my customers and potential customers?

What kind of people are they?

Where do they live?

Can and will they buy?

Am I offering the kinds of goods or services they want—at the best place, at the best time, and in the right amounts?

Are my prices consistent with what buyers view as the products' values?

Are my promotional programs working?

What do customers think of my business?

How does my business compare with my competitors?

Marketing research is not a perfect science; it deals with people and their constantly changing likes and dislikes which can be affected by hundreds of infuences, many of which simply can't be identified. Marketing research does, however, try to lean about markets scientifically. That, simply, is to gather facts in an orderly, objective way; to find out how things are, not how you think they are or would like them to be; what people want to buy, not just what you want to sell them.

Why Do It?

It's tough—impossible—to sell people what they don't want. (Remember the Nehru jacket?) That's pretty ob-

vious. Just as obvious is the fact that nothing could be simpler than selling people what they do want. Big business has to do marketing research to find that out. The same reason holds for small business.

For once small business holds an edge. The giants hire experts to go out and discover what's what in the mass market in which they sell. Owner-managers of small business are close to their customers; they can learn much more quickly about the likes and dislikes of their specific customers. They can react quickly to changes in their customers' buying habits.

Small business owners often have a "feel" for their customers—their markets—that comes from years of experience. Experience can be a two-edged sword, though, since it comprises a tremendous mass of facts acquired at random over a number of years. Information about markets gained from long experience may no longer be timely enough to base selling decisions on. In addition, some "facts" may be vague, misleading impressions or folk tales of the "everybody knows that..." variety.

Marketing research focuses and organizes marketing information. It insures that such information is timely. It provides what you need to:

Reduce business risks,

Spot problems and potential problems in your current market,

Identify and profit from sales opportunities,

Get basic facts about your markets to help you make better decisions and set up plans of action.

How Do You Go About It?

You probably do some market research every day in the course of your routine management activities without being aware of it. You check returned items to see if there's some pattern. You ask one of your old customers, who has stopped coming to your shop, why he hasn't been in lately when you run into him on the street. You look at a competitor's ad to see what that store is charging for the same products you're selling.

Marketing research simply makes this process more orderly. It provides a framework that lets you objectively judge the meaning of the information you gather about your market. The following flow chart shows the steps in the marketing research process:

Define problem
V (limit and state clearly)

V Assess available information

V Assess additional information, if required

1. Review internal records and files
2. Interview employees
3. Consult secondary sources of information
4. Interview customers and suppliers

V 5. Collect (or have collected) primary data

V Organize and interpret data

V Make decision

V Watch the results of the decision

Defining the Problem

This, the first step of the research process, is so obvious that it is often overlooked. Yet, it is the most important step of the process.

You must be able to see beyond the symptoms of a problem to get at the cause. Seeing the problem as a "sales decline" is not defining a cause; it's listing a symptom.

In defining your problem list every possible influence that may have caused it. Has there been a change in the areas your customers have traditionally come from? Have their tastes changed? Put all the possible causes down. Then set aside any that you don't think can be measuered, since you won't be able to take any action on them.

You must establish an idea of the problem with causes that can be objectively measured and tested. Put your idea of the causes in writing. Look at it frequently while you're gathering your facts to keep on track, but don't

let it get in the way of the facts, either. (Incidentall
while this *Aid* speaks of "problems," the same tech
ques can be used to investigate potential opportuni
too.)

Assessing Available Information

Once you've formally defined your problem, you sh
assess your ability to solve it immediately. You ma
already have all the information you need to deter
if your hypothesis is correct, and solutions to the p
blem may have become obvious in the process of d
ing it. Stop there. You'll only be wasting you time
money if you do further marketing research.

What if you aren't sure whether or not you need a
tional information at this point? What if you'd feel
comfortable with additional data? Here, you've go
make a subjective judgment to weigh the cost of m
information against its usefullness.

You're up against a dilemma similar to guessing i
vance your return on your advertising dollar. You
know what return you'll get, or even if you'll get
return. The best you can do is to ask yourself hov
making a wrong decision will cost and to balance
against the cost of gathering more data to make a
informed decision.

Gathering Additional Informatio

Think cheap and stay as close to home as possib
Before considering anything fancy like surveys o
experiments, look at your own records and files.
sales records, complaints, receipts, or any other
that can show you where your customers live or
or how and what they buy.

One small business owner found that addresses
receipts allowed the pinpointing of customers in
market area. With this kind of information he co
cross reference his customers' address and the
they purchased. From this information he was a
check the effectiveness of his advertising placem

Your customer's addresses alone can tell you a
them. Obviously you can pretty closely guess yo
customers' life-styles by knowing what the
neighborhoods they live in are like. Knowing h
live can give you solid hints on what they can
pected to buy.

Credit records are an excellent source of inform
about your markets, too. In addition to the alw

information about customers' jobs, income levels, marital status. Granting credit, so it can be seen, is a multi-faceted marketing tool—though one with well-known costs and risks.

When you've finished checking through your records, go to that other valuable internal source of customer information—your employees. Employees may be the best source of information about customer likes and dislikes. They hear customers' minor gripes about your store or service—the ones the customers don't think important enough to take to you as owner-manager. They are also aware of the items customers request that you may not stock. Employees can probably also give you pretty good seat-of-the-pants customer profile from their day-to-day contacts.

Going Outside for Marketing Research Data

Once you've exhausted the best sources for information about your market, your internal data, where do you go? Well, the next steps in the process are to do primary and secondary research on the outside.

Secondary research first. Naturally, since it's called secondary research, you do it before you undertake any primary research. Secondary research simply involves going to already published surveys, books, magazines and the like and applying or rearranging the information in them to bear on your particular problem or potential opportunity.

For example, say you sell tires. You might reasonable guess that sales of new cars three years ago would have a strong effect on present retail sales of tires. To test this idea you might compare new car sales of six years ago with the replacement tires sales from three years ago.

Suppose you found that new tire sales three years ago were 10 percent of the new car sales three years previous to that. Repeating this exercise with car sales five years ago and tire sales for two years ago and so on, you might find that in each case tire sales were about 10 percent of the new car sales made three years before. You could then logically conclude that the toal market for replacement tire sales in your area this year ought to be about 10 percent of the new car sales in your locality three years ago.

Naturally, the more localized the figures you can find the better. While, for instance, there may be a decline

nationally in new housing starts, if you sell new appliances in an area where new housing is booming, you obviously would want to base your estimate of market potential on local conditions. Newspapers and local radio and TV stations may be able to help you find this information.

There are many sources of such secondary research material. You can find it in libraries, universities and colleges, trade and general business publications, and newspapers. Trade associations and government agencies are rich sources of information.

Primary research, the last step. Primary research on the outside can be as simple as your asking customers or suppliers how they feel about your store or service firm or as complex as the surveys done by the sophisticated professional marketing research giants. It includes among its tools direct mail questionnaires, telephone or "on the street" surveys, experiments, panel studies, test marketing, behavior observation, and the like.

Primary research is often divided into "reactive" and "nonreactive" research. The "peanut shell study" at the beginning of this *Aid* is an example of nonreactive primary research: it was a way of seeing how real people behaved in a real "market situation" (in this case how they moved through the store and which displays attracted their attention) without influencing that behavior even accidentally.

Reactive research (surveys, interviews, questionnaires) is probably what most people think of when they hear the words "marketing research." It's the kind best left to the experts, since you may not know the right questions to ask. There's also the danger that either people won't want to hurt your feelings when you ask them their opinions about your business or they'll answer questions the way they think they are "expected" to answer, rather than the way they really feel. If you feel you can't afford high-priced marketing research services, ask nearby college or university business schools for help.

What You Can Do

Marketing research is limited only by your imagination. Much of it you can do with very little cost except your time and mental effort. Here are a few examples of techniques small business owner-managers have used to gather information about their customers.

License plate analysis. In many states license plates give you information about where a car's owner lives. You can generally get information from state agencies on how to extract this information from license numbers. By taking down the numbers of cars parked in your location you can estimate your trading area. Knowing where your customers live can help you aim your advertising for good effect. Or, how about tracing your competitors' customers using the same approach to win them for your business.

Telephone number analysis. Like license numbers, telephone numbers can tell you the areas in which people live. You can get customers' telephone numbers on sales slips, from checks and credit slips, and the like. As noted, before, knowing where your customers live can give you an excellent idea of the way they live and what they like.

Coded coupons and "tell them Joe sent you" broadcast ads. You can check the relative effectiveness of your advertising media by coding coupons and by including phrases customers must use to get a discount on some sale item in your broadcast ads. This technique may also reveal what areas your customers are drawn from. Where they read or heard about the discount offered in your ads will also give you information about their tastes.

People watching. You can learn a great deal about your customers just by looking at them. How are they dressed? How old do they appear to be? Are they married? Do they have children with them? This technique is obvious and most owner-managers get their feel for their clientele just this way. But how about running a tally sheet for a week keeping track of what you're able to tell about your customers from simple outward clues? It might just confirm what you've thought obvious all the time, but it might also be instructive.

Do, Don't Overdo

The key to effective marketing research is neither technique nor data—it's useful information. That information must be timely; your customers' likes and dislikes are shifting constantly. You'll never know everything about a particular problem anyway. It's much better to get there on time with a little than too late with a lot. If you spend too much time gathering too much data going for a sure thing, you may find your marketing research is nothing but garbage.

Copies of this **Aid** are available free from SBA, P.O. Box 15434, Fort Worth, TX 76119. **Aids** may be condensed or reproduced. They may not be altered to imply approval by SBA of any private organization, product or service. If material is reused, credit to SBA will be appreciated. Use of funds for printing this publication has been approved by the Director of the Office of Management and Budget through June 30, 1985.

U.S. GOVERNMENT PRINTING OFFICE : 1982 O - 373-248